FDIC State Profile

**Spring 2005**

# Virginia

## Virginia's economic growth remains above the national average.

- Virginia's economic performance has continued to eclipse that of the nation (See Chart 1). In terms of job growth, the state ranked among the top ten in the nation during fourth quarter 2004. Growth in the state is broad-based, being driven by several economic sectors. Information technology and manufacturing, however, are two areas where growth continues to lag.

## Economic performance diverges along geographic lines.

- Economic growth in the state generally remains bifurcated along geographic lines, with northern and eastern portions of the state generally outpacing growth elsewhere. In rural areas of the state where traditional industries are more prevalent, the elimination of trade quotas on textiles and apparel products at the start of 2005 could exacerbate employment losses as even more production is shifted overseas, especially to China. Although in decline for years, these industries remain an important economic component in several Virginia counties, particularly along the North Carolina border (See Map 1).

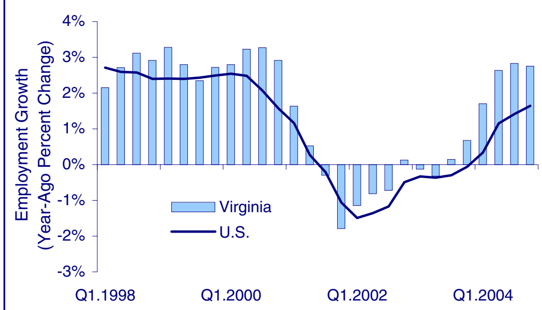
## Western portions of the state continue to see weak or negative population growth.

- Population growth in Virginia has moderated significantly since the start of the decade. In 2004, the number of residents increased by 1.0 percent, which was on par with the national rate of increase. However, regional population growth trends reflect the state's varied economic performance. With the exceptions of some portions of the ***Lynchburg*** and ***Roanoke*** metropolitan areas and ***Halifax County***, the western areas of the state have below average gains or outright population declines. In contrast, parts of ***Northern Virginia***, ***Richmond***, and ***Norfolk*** have enjoyed robust gains. Since 2000, ***Loudoun County*** has ranked first in the nation in terms of population growth.

## Residential and commercial real estate (CRE) activity is greater in the Golden Crescent area of the state.

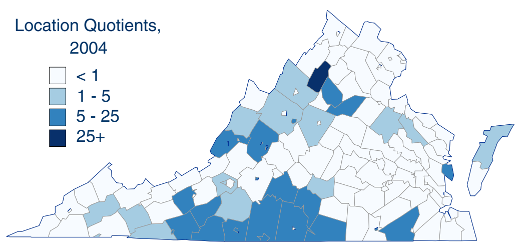
- Residential real estate markets reflect the health of the surrounding economy and the gains in population.

Chart 1: Job Growth in Virginia Remains Well Above the National Average



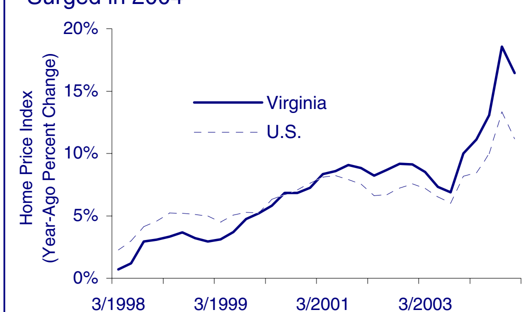

Source: Bureau of Labor Statistics

Map 1: Several Areas of Virginia Have High Concentrations of Textile and Apparel Employment




Note: A location quotient is the share of industry employment locally to the national share. A location quotient greater than 1 means that the industry is relatively more concentrated locally than nationally.
Source: Global Insight, Inc.

Chart 2: Virginia Home Price Appreciation Surged in 2004




Source: Office of Federal Housing Enterprise Oversight

Statewide, home prices increased by more than 15 percent during 2004, well ahead of the national gain (See Chart 2). Major residential markets in northern portions of the state, including ***Blue Ridge***, the ***Dulles area***, ***Fredericksburg***, ***Massanutten***, Northern Virginia, and ***Prince William*** all saw 20+ percent increases in median sales prices last year. Initial 2005 data indicate that median prices in the Dulles area and Northern Virginia have now surpassed $400,000.

- Comparatively robust economic growth in eastern areas of the state has had a positive effect on some CRE markets. Office vacancy rates, though still well above pre-recession lows, have started to moderate as absorption has remained positive; continued consumer spending has resulted in better performance in retail markets.

**Changing government needs may have an impact on Norfolk.**

- Increased federal spending in recent years has contributed substantially to the economic health of some areas of Virginia, particularly Norfolk. Recent announcements, however, such as NASA's desire to cut 1,000 jobs at its Langley Research Center, the possibility that the Navy will move one of its aircraft carriers based in Norfolk to Jacksonville, and the pending Base Realignment and Closure Commission (BRAC) findings, could pose a significant risk to the area's growth prospects.

**Earnings performance at Virginia community banks[1] lagged despite strong loan growth.**

- Earnings performance has slowed at Virginia community banks. Net income grew just 7 percent to $226 million during 2004, which is much slower than the nearly 17 percent growth rate in net income during 2003. The average net interest margin fell slightly to 3.96 percent leading to a four basis-point decline in the return on assets to 1.08 percent. Controlled expense growth prevented a further decline in profitability.

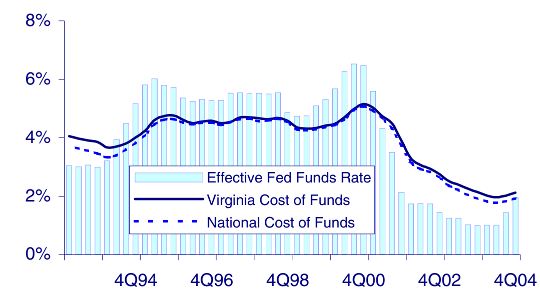
- Loan growth was fairly robust and much faster than a year ago. Total loans grew 17 percent and now compose roughly 71 percent of assets, up from 66 percent a year earlier. Loan activity continues to be centered in real estate related products. The largest growth occurred in CRE, construction & development, and home equity lines. Overall loan quality continued to improve, and the past due loan ratio is 1.53 percent compared with the national average of 1.62 percent.

**The use of noncore funding sources has increased, and funding costs have headed higher.**

- At community banks in the state, loan growth was funded primarily through increases in noncore sources, such as brokered deposits and jumbo CDs. The growth rate of noncore deposits approximated 17 percent during 2004. This compares with just a 7 percent rate of growth in core funding sources.

- For much of the late 1990s, insured institutions in the state had funding costs that were lower than the federal funds rate especially during periods of rising rates. Should rates continue to rise, funding costs will likely lag again (See Chart 3).

Chart 3: The Cost of Funds Has Started to Rise at Virginia Insured Institutions




Cost of Funds is median quarterly annualized interest expense to interest-bearing liabilities.
Source: FDIC and Federal Reserve

[1] Community banks have assets less than $1 billion and exclude specialty and de novo banks.

# Virginia at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

| Employment Growth Rates | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|---|---|---|---|---|---|
| Total Nonfarm (share of trailing four quarter employment in parentheses) | 2.8% | 0.7% | 0.1% | -1.8% | 2.9% |
| Manufacturing (8%) | 0.4% | -5.9% | -4.1% | -8.3% | -2.0% |
| Other (non-manufacturing) Goods-Producing (7%) | 5.5% | 4.1% | -1.2% | 0.5% | 5.9% |
| Private Service-Producing (67%) | 2.8% | 1.3% | 0.6% | -1.6% | 3.9% |
| Government (18%) | 2.8% | 0.5% | 1.2% | 0.4% | 1.4% |
| Unemployment Rate (% of labor force) | 3.6 | 3.9 | 4.2 | 4.0 | 2.2 |

| Other Indicators | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|---|---|---|---|---|---|
| Personal Income | N/A | 5.7% | 2.0% | 4.1% | 7.3% |
| Single-Family Home Permits | 1.1% | 2.8% | 11.9% | 2.3% | 5.3% |
| Multifamily Building Permits | -14.5% | -12.1% | 60.0% | 32.1% | -41.2% |
| Existing Home Sales | 13.1% | 14.6% | 7.3% | 11.0% | -0.7% |
| Home Price Index | 16.4% | 10.0% | 9.1% | 8.8% | 7.3% |
| Bankruptcy Filings per 1000 people (quarterly level) | 1.22 | 1.35 | 1.42 | 1.41 | 1.24 |

**BANKING TRENDS**

| General Information | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|---|---|---|---|---|---|
| Institutions (#) | 140 | 141 | 146 | 154 | 162 |
| Total Assets (in millions) | 221,223 | 181,595 | 151,322 | 106,817 | 91,189 |
| New Institutions (# < 3 years) | 12 | 8 | 9 | 17 | 26 |
| Subchapter S Institutions | 1 | 0 | 0 | 0 | 0 |

| Asset Quality | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|---|---|---|---|---|---|
| Past-Due and Nonaccrual Loans / Total Loans (median %) | 1.00 | 1.52 | 1.26 | 1.75 | 1.71 |
| ALLL/Total Loans (median %) | 1.16 | 1.21 | 1.21 | 1.15 | 1.17 |
| ALLL/Noncurrent Loans (median multiple) | 2.78 | 2.36 | 3.01 | 2.52 | 2.23 |
| Net Loan Losses / Total Loans (median %) | 0.07 | 0.11 | 0.12 | 0.11 | 0.08 |

| Capital / Earnings | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|---|---|---|---|---|---|
| Tier 1 Leverage (median %) | 8.73 | 8.50 | 8.30 | 8.33 | 8.93 |
| Return on Assets (median %) | 1.03 | 1.07 | 1.08 | 0.89 | 1.09 |
| Pretax Return on Assets (median %) | 1.46 | 1.52 | 1.55 | 1.25 | 1.51 |
| Net Interest Margin (median %) | 3.95 | 3.95 | 4.16 | 3.97 | 4.28 |
| Yield on Earning Assets (median %) | 5.67 | 5.95 | 6.68 | 7.64 | 8.23 |
| Cost of Funding Earning Assets (median %) | 1.68 | 1.93 | 2.53 | 3.83 | 4.04 |
| Provisions to Avg. Assets (median %) | 0.18 | 0.20 | 0.23 | 0.19 | 0.19 |
| Noninterest Income to Avg. Assets (median %) | 0.64 | 0.65 | 0.64 | 0.65 | 0.62 |
| Overhead to Avg. Assets (median %) | 2.93 | 2.91 | 2.92 | 3.01 | 2.96 |

| Liquidity / Sensitivity | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|---|---|---|---|---|---|
| Loans to Assets (median %) | 70.9 | 66.7 | 65.6 | 66.4 | 67.0 |
| Noncore Funding to Assets (median %) | 18.2 | 16.4 | 16.3 | 15.4 | 15.5 |
| Long-term Assets to Assets (median %, call filers) | 15.1 | 19.1 | 17.6 | 18.5 | 16.4 |
| Brokered Deposits (number of institutions) | 36 | 30 | 31 | 26 | 18 |
| Brokered Deposits to Assets (median % for those above) | 4.1 | 2.8 | 2.9 | 5.6 | 8.4 |

| Loan Concentrations (median % of Tier 1 Capital) | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|---|---|---|---|---|---|
| Commercial and Industrial | 74.3 | 84.3 | 76.8 | 88.0 | 80.9 |
| Commercial Real Estate | 323.9 | 289.5 | 248.7 | 225.7 | 192.0 |
| *Construction & Development* | 65.0 | 49.6 | 43.7 | 41.9 | 29.0 |
| *Multifamily Residential Real Estate* | 8.4 | 6.9 | 5.4 | 5.9 | 6.0 |
| *Nonresidential Real Estate* | 194.6 | 198.9 | 180.4 | 152.2 | 137.8 |
| Residential Real Estate | 247.1 | 244.1 | 252.3 | 252.5 | 230.2 |
| Consumer | 44.8 | 51.0 | 65.0 | 72.0 | 76.0 |
| Agriculture | 6.9 | 8.2 | 5.1 | 4.6 | 5.7 |

**BANKING PROFILE**

| Largest Deposit Markets | Institutions in Market | Deposits ($ millions) |
|---|---|---|
| Washington-Arlington-Alexandria, DC-VA-MD-WV | 99 | 119,767 |
| Richmond, VA | 36 | 33,150 |
| Virginia Beach-Norfolk-Newport News, VA-NC | 32 | 14,965 |
| Roanoke, VA | 17 | 4,585 |
| Kingsport-Bristol-Bristol, TN-VA | 26 | 3,675 |

| Asset Distribution | Institutions |
|---|---|
| < $250 mil. | 75 (53.6% ) |
| $250 mil. to $1 bil. | 49 (35% ) |
| $1 bil. to $10 bil. | 9 (6.4% ) |
| > $10 bil. | 7 (5% ) |